

# Assembly Bill 925

## California Insurance Community Investment Disclosure Act

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### ISSUE

Many of California's low and moderate income communities are in need of substantially higher levels of community investment. Investment in low income communities in California has been inadequate, resulting in a low level of economic vitality, high unemployment, substandard housing, and a general decline in the quality of life in many rural and urban areas.

However, these same communities boast safe and sound community development investment opportunities available to insurers that offer competitive rates of return, maintain the financial integrity and solvency of the company, and would not compromise the financial interests of policyholders and shareholders. These investments represent overlooked business opportunities in California and would help address unmet capital needs in low and moderate income communities.

The goal of this legislation is to promote safe and sound community development investment in low and moderate income communities routinely overlooked by the traditional investment practices of the insurance industry. Increase insurance industry investment will help to revitalize these communities. Public disclosure of these investments will stimulate the insurance industry to develop and seek innovative, safe and sound investment opportunities.

**The bill requires California-admitted insurers to provide community development investment information to the Insurance Commissioner on a biennial basis, beginning May 31, 2007, and sunseting on January 1, 2011.**

**Additionally, that information will be provided to the general public via the Department of Insurance website.**

This bill is a call to the insurance industry to disclose to the public and to the communities they serve their investment practices in low and moderate income communities, which can improve the quality of life for Californians in the state's neediest neighborhoods.

### EXISTING LAW

The California Organized Investment Network administers a tax credit program related to investing in California certified Community Development Financial Institutions. The tax credit is limited to \$2 million per year supporting \$10 million per year in investments (Revenue and Taxation Code Section 12209, 17053.57, and 23657).

Insurers are required to file an annual statement, adopted by the National Association of Insurance Commissioners (NAIC), with the California Department of Insurance (Insurance Code Section 923).

Within other sectors of the financial services industry, the federal Community Reinvestment Act requires regulated financial institutions to demonstrate that they meet the conveniences and needs of the communities in which they are located, including the need for credit, deposit, and other banking services. The CRA provides that banks, for example, have a continuing and affirmative obligation to help meet local community banking needs. Banks are encouraged to meet those needs with safe and sound operations (12 U.S.C. 2901).

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## THIS BILL

**AB 925 applies to all insurers admitted to do business in California.** All insurers are encouraged to engage in community development investment for low and moderate income communities.

- **Low income** means individuals earning less than 50% of median income. **Moderate income** means individuals earning at least 50%, but less than 80%, of median income.
- **Community Development Investment** means an investment that has as its primary purpose community development for, or that primarily benefits, California low-income or moderate-income individuals, families, or communities.
- Requires California admitted insurers to provide community development investment information to the Insurance Commissioner through a data call every two years, beginning May 31, 2007.
- Requires the Insurance Commissioner to provide to the general public via the Department of Insurance website the community development investment information.
- Requires those insurers that did not respond to the 2005 voluntary data call to provide the Commissioner with their community development investments on or before February 28, 2007.
- Sunsets on January 1, 2011.
- Allows the Commissioner to request community investment data on a voluntary basis on or after January 2010.

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## FAQs

### *Why is this bill necessary?*

AB 925 is necessary because existing law only allows the Department of Insurance to collect community development investment information from admitted insurers on a voluntary basis, with NO penalty for not responding.

### *How much in industry investments were identified in the recent data call? How does that compare to earlier investments reported?*

In response to the 2005 voluntary data call, COIN found that approximately 2500 investments totaling \$7.8 billion qualified. By comparison, from 1997 through 2004, insurers voluntarily reported 738 qualifying investments to COIN totaling \$1.7 billion.

### *Why is community development investing necessary?*

Many of California's low and moderate income communities are in desperate need of community investment. Investment in low income communities in California has been insufficient, resulting in a low level of economic vitality, substandard housing, and a decline in the quality of life in many rural and urban areas.

Insurance industry investment in these communities will promote community development for individuals and businesses. It is the goal of this legislation that insurers be innovative, responsive to community needs, and foster investments not routinely provided by private investors.

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## BACKGROUND

In 1996, COIN (California Organized Investment Network) was established as a program of the California Department of Insurance, and is a collaborative effort of

the Department, the insurance industry, community development organizations, and local governments. The program encourages **voluntary** insurance industry investment in traditionally underserved communities. It also serves as a liaison between insurers and community organizations and as a clearinghouse for community investment information. The COIN program is **voluntary** and came into being through a Memorandum of Understanding.

To determine what level of investments has been made by insurance companies, the Department issued a **voluntary** request in 2005 to 1355 admitted insurers for information on their California community development investments. Of those, 932 companies responded; 423 did not. The 69% of all companies that did respond represent 91% of the insurance business in California.

All together, insurers reported over 5000 investments totaling close to \$14 billion that insurers thought might qualify. After careful review, COIN determined that about 2500 investments totaling \$7.8 billion meet the definitions in the data call for California community development investments.

However, only 196 companies (14% of all companies doing business in California) reported qualifying investments. These companies write 52% of the California insurance business. That leaves companies with 48% of the California business reporting no qualifying investments. Over 1000 companies (86% of the total companies earning money doing insurance business in California) have not yet reinvested in California's neediest communities.

The data call was the first comprehensive, formal request for the insurance industry to report California community development investments. We believe time spent by the Department, insurers, and other stakeholders in preparing and responding to

the data call was time well spent and documents the value of an ongoing reporting mechanism as proposed by this measure.

The recent data call focused industry attention on community development investing; increased the understanding of what qualifies as community development investing; sparked interest in some companies that had not previously invested; revealed that more was being done than had been previously reported; and provided additional insight on why some companies do not make community development investments.

A biennial data call would recognize the commitment to community development investing made by a significant sector of the industry, encourage other companies to join them, and increase "double-bottom line" investing that helps our neediest communities.

## **RELATED LEGISLATION**

### **2006 – AB 2831 (Ridley-Thomas)**

Extends the existing California Community Development Financial Institution Tax Credit and Certification Program until 2017 and makes changes to the certification process for CDFIs and investors.

### **2002 – SB 1861 (Alarcon)**

Required insurers to report community development investments to the Insurance Commissioner annually. Failed passage in Assembly Insurance Committee.

### **2001 – SB 409 (Vincent, CH. 535)**

Expanded and clarified the definition of qualified investments, extended the Community Development Financial Institutions Tax Credit Program for five more years, and provided for a carry-over of any unused credit for future years.

## **SUPPORT**

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John Garamendi, Insurance Commissioner,  
(Sponsor)  
Cruz Bustamante, Lieutenant Governor  
California Association for Microenterprise  
Opportunity  
California Community Economic  
Development Association  
California Resources and Training  
Chabin Concepts  
Colusa County Economic Development  
Corporation  
Eureka Redevelopment Agency  
Fulcrum Capital Group  
Los Angeles Neighborhood Housing  
Services  
MAAC Project  
Mercy Housing  
Nehemiah Community Reinvestment Fund  
Pacific Coast Regional Small Business  
Development Corporation  
Sacramento Mutual Housing Agency  
Shamrock Capital Advisors, Inc.  
Small Business Financial Development  
Corporation of Orange County  
Southern California Association of Non-  
Profit Housing  
State Assistance Fund for Enterprise,  
Business and Industrial Development  
Corporation  
John Trauth, Housing and Community  
Development Consultant

## **OPPOSITION**

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American Insurance Association  
California Chamber of Commerce  
Liberty Mutual Group  
Office of the Insurance Advisor

## **NEUTRAL**

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Association of California Insurance  
Companies  
Association of California Life and Health  
Insurance Companies  
Personal Insurance Federation of California

San Diego Housing Federation

## **STATUS**

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8/25/06- Passed the Assembly Floor  
(Concurrence) (vote 48-31).

8/22/06- Passed the Senate Floor (vote 24-  
13).

8/7/06- Passed out of the Senate  
Committee on Appropriations (vote 8-5).

6/21/06- Passed out of Senate Banking,  
Finance and Insurance Committee (vote 7-  
4).

1/30/06- Passed Assembly Floor  
(vote 45-34).

1/18/06- Passed out of Assembly  
Appropriations Committee (vote 13-4).

1/11/06- Passed out of Assembly Insurance  
Committee (vote 6-3).

## **FOR MORE INFORMATION**

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